

AUDITED FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

NORTHEASTERN TECHNICAL COLLEGE

June 30, 2012

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June 30, 2012

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INDEPENDENT AUDITORS' REPORT

The President and Members of the Area Commission
Northeastern Technical College
Cheraw, South Carolina

We have audited the financial statements of the business-type activities of Northeastern Technical College ("the College") as of and for the year ended June 30, 2012 which comprises the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Northeastern Technical College as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report September 28, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the College taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is also the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Columbia, South Carolina
September 28, 2012

The Hall Group, P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS
NORTHEASTERN TECHNICAL COLLEGE
June 30, 2012

Northeastern Technical College (*"the College"*) is pleased to present its financial report and management's discussion and analysis of the College's financial activity for the fiscal year June 30, 2012, which focuses on current activities, resulting change and currently known facts, and provides a comparison with the prior fiscal year. This discussion should be read in conjunction with the financial statements and the accompanying notes, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Colleges and Universities*.

The College is engaged only in Business-Type Activities, (BTA) which are financed in part by fees charged to students for educational services. Accordingly, its activities are reported using the three financial statements required for proprietary funds: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year and requires classification of assets and liabilities into current and non-current categories. The College's net assets are the difference between total assets and total liabilities and are one indicator of the current financial condition of the College, while the change in net assets from the prior year is an indicator of whether the overall financial condition has improved or deteriorated during the year. This statement is designed to present a snapshot of the College's financial condition at the end of the fiscal year.

The Statement of Revenues, Expenses, and Changes in Net Assets presents revenues earned and expenses incurred during the year. Revenues and expenses are classified as either operating or non-operating. Expenses are reported by natural classification. This statement reflects the College's dependence on state funding by the resulting operating loss.

The final statement presented is the Statement of Cash Flows, which presents detailed information about the cash activity of the College during the year. This statement further emphasizes the College's dependence on state and county appropriations, because it separates them into operating and non-operating cash flows.

FINANCIAL HIGHLIGHTS

- The College's total assets exceeded its total liabilities by \$12,206,048, of which \$2,264,290 is available to meet the College's ongoing obligations with the balance invested in capital asset or restricted.
- Current assets change of \$310,792 represents an increase in cash of \$1,250,661 and decrease in receivables and other current assets of \$939,869.
- The College experienced a net operating loss of \$7,767,199 reported in the statement of Revenues, Expenses, and Changes in Net Assets. The operating loss was off-set by non-operating revenues from federal grants as well as state and local grants and state grants \$7,247,171.

FINANCIAL HIGHLIGHTS - Continued

- Non-operating revenue has declined during the current year primary to federal grants and contracts declining by \$674,844.
- Restricted net assets have increased \$405,176 mainly due the increase in plant cash to be used for capital plant expenditures.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

The following schedule is prepared from the College's Statement of Net Assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Note that assets substantially exceed liabilities denoting a sound financial condition for the College.

Net Assets as of June 30, 2012 With Comparative Total for 2011			
	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
ASSETS			
Current Assets	\$ 3,825,923	\$ 3,515,131	\$ 310,792
Non-Current Assets			
Capital Assets, net	9,475,285	9,810,134	(334,849)
Total Assets	<u>\$ 13,301,208</u>	<u>\$ 13,325,265</u>	<u>\$ (24,057)</u>
LIABILITIES			
Current Liabilities	\$ 740,959	\$ 789,429	\$ (48,470)
Noncurrent Liabilities	354,201	355,311	(1,110)
Total Liabilities	<u>1,095,160</u>	<u>1,144,740</u>	<u>(49,580)</u>
NET ASSETS			
Investment in Capital Assets	9,475,285	9,810,134	(334,849)
Unrestricted	2,264,290	2,309,094	(44,804)
Restricted – expendable	466,473	61,297	405,176
Total Net Assets	<u>12,206,048</u>	<u>12,180,525</u>	<u>25,523</u>
Total Liabilities and Net Assets	<u>\$ 13,301,208</u>	<u>\$ 13,325,265</u>	<u>\$ (24,057)</u>

Net assets may serve over time as a useful indicator of an entity's financial position. The largest portion of the College's net assets (78%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The College uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

Approximately 4% of the College's total net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$2,264,290 or approximately 18% may be used to meet the College's ongoing unrestricted obligations.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE – Continued

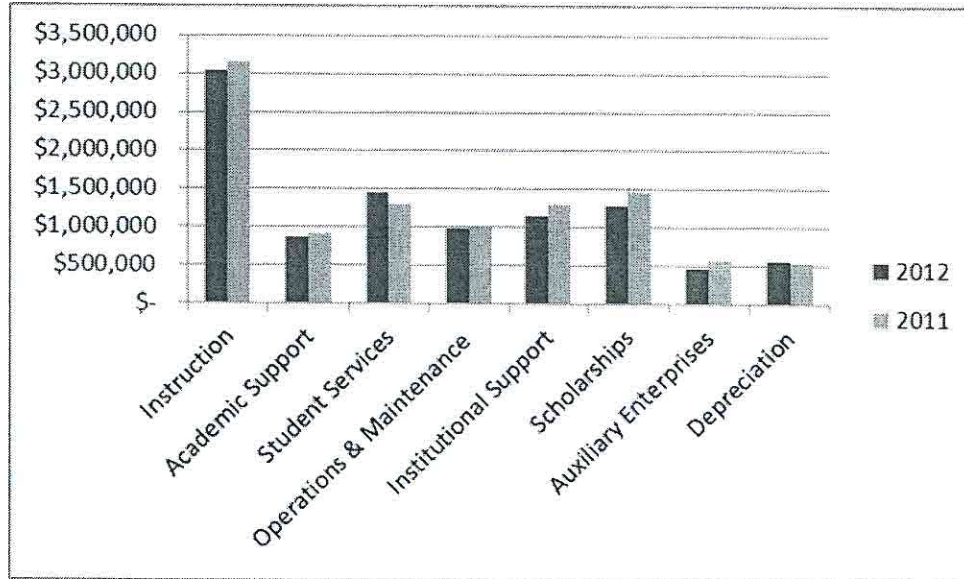
The following schedule summarizes the operating results for the two fiscal years. A large portion of the revenue included in the Grants and Contracts category represents student financial assistance, which is used to pay tuition and fees for students to attend the College. An approximation of tuition and fees paid from this source of funds has been recognized as a reduction of tuition and fees in the form of scholarship allowances in order to eliminate duplication of revenue.

Summary of Revenues, Expenses, and Changes in Net Assets For Fiscal Year Ended June 30, 2012, with Comparative Totals for June 30, 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
OPERATING REVENUE			
Tuition and Fees	\$ 29,823	\$ 335,260	\$ (305,437)
Grants, Contracts and Other	1,362,243	1,537,400	(175,157)
Auxiliary	629,792	742,843	(113,051)
Total Operating Revenue	<u>2,021,858</u>	<u>2,615,503</u>	<u>(593,645)</u>
Less Operating Expenses	<u>9,789,057</u>	<u>10,270,521</u>	<u>481,464</u>
Operating Loss	(7,767,199)	(7,655,018)	(112,181)
NON-OPERATING REVENUE			
State Appropriations, Grants and Contracts	1,661,958	1,570,626	91,332
Local Appropriations	720,680	703,825	16,855
Interest Income	6,024	10,413	(4,389)
State Grants and Contracts	40,153	149,591	(109,438)
Federal Grants and Contracts	4,492,421	5,167,265	(674,844)
Other Non-Operating Revenues	325,935	466,399	(140,464)
Net Non-Operating Revenues	<u>7,247,171</u>	<u>8,068,119</u>	<u>(820,948)</u>
Income/(Loss)Before Other Revenues, Expenses, Gains or Losses	(520,028)	413,101	(933,129)
Capital Grants and Gifts	538,904	658,746	(119,841)
Gain on Disposal of Assets	<u>6,646</u>	<u>0</u>	<u>6,646</u>
Increase in Net Assets	25,523	1,071,847	(1,046,324)
NET ASSETS			
Net Assets - Beginning of Year	12,180,525	11,108,678	1,071,847
Net Assets - End of Year	<u>\$ 12,206,048</u>	<u>\$ 12,180,525</u>	<u>\$ 25,523</u>

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE – Continued

Note N in the accompanying Notes to the Financial Statements identifies operating expenses by functional classification. The following graph illustrates the natural class categories of the operating expenses from the condensed operating results above.



Economic Factors

During 2011-2012, the economy for the state began to stabilize. The South Carolina Technical College System established a funding formula which permits base funding for the technical colleges. The College experienced static enrollment. Maintaining a sufficient enrollment base and continuing with the implementation of cost control measures will allow the College to remain a financially strong institution.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
 NORTHEASTERN TECHNICAL COLLEGE
 June 30, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$	2,032,119
Restricted cash and cash equivalents		466,473
Accounts receivable		1,173,361
Inventories		137,199
Other assets		16,771
Total Current Assets		<u>3,825,923</u>

Capital assets, net		<u>9,475,285</u>
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TOTAL ASSETS \$ 13,301,208

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$	31,552
Deferred revenue		517,268
Accrued payroll and related liabilities		86,059
Deposits held for others		37,217
Current portion of long term liabilities		68,863
Total Current Liabilities		<u>740,959</u>

Noncurrent Liabilities

Loan payable - ARRA Energy Grant		9,145
Accrued annual leave		345,056
Total Noncurrent Liabilities		<u>354,201</u>

Total Liabilities 1,095,160

NET ASSETS

Invested in capital assets, net of related debt		9,475,285
Unrestricted		2,264,290
Restricted - expendable		466,473
Total Net Assets		<u><u>12,206,048</u></u>

TOTAL LIABILITIES AND NET ASSETS \$ 13,301,208

See Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
NORTHEASTERN TECHNICAL COLLEGE
For the Year Ended June 30, 2012

REVENUES

Operating Revenues

Student tuition and fees (net of scholarship allowances of \$3,905,655)	\$ 29,823
Federal grants and contracts	574,324
State grants and contracts	787,919
Auxiliary enterprises	629,792
Total Operating Revenues	<u>2,021,858</u>

EXPENSES

Operating Expenses

Salaries	4,376,749
Benefits	1,349,176
Scholarships	1,285,486
Utilities	271,684
Supplies and other services	1,938,910
Depreciation	567,052
Total Operating Expenses	<u>9,789,057</u>

OPERATING LOSS (7,767,199)

Non-operating Revenues

State appropriations	1,661,958
Local appropriations	720,680
Interest income	6,024
State grants and contracts	40,153
Federal grants and contracts	4,492,421
Other nonoperating revenues	325,935
Non-operating Revenues	<u>7,247,171</u>

LOSS BEFORE OTHER REVENUES,
EXPENSES, GAINS OR LOSSES (520,028)

Capital grants and gifts	538,905
Gain on Diposal	<u>6,646</u>

INCREASE IN NET ASSETS 25,523

Net Assets - beginning of year 12,180,525

NET ASSETS - END OF YEAR \$ 12,206,048

See Notes to the Financial Statements.

STATEMENT OF CASH FLOWS
NORTHEASTERN TECHNICAL COLLEGE
For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 210,379
Federal, state and local grants and contracts	1,619,863
Auxiliary enterprise charges	629,791
Receipt of funds held for others	27,632
Payment of funds held for others	(30,702)
Payments to vendors	(4,845,762)
Payments to employees	(4,367,653)

NET CASH USED IN OPERATING ACTIVITIES (6,756,452)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	1,710,819
County appropriations	709,222
State, local and federal grants, gifts and contracts - non-operating	4,543,318
Other income - non-operating	302,651

NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 7,266,010

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Gain on Disposal	6,646
Capital grants and gifts	966,660
Purchase of capital assets	(232,202)

NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES 741,104

NET INCREASE IN CASH 1,250,662

Cash - beginning of year 1,247,930

CASH - END OF YEAR \$ 2,498,592

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH
USED IN OPERATING ACTIVITIES:

Operating loss	\$ (7,767,199)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	567,052
Change in assets and liabilities:	
Decrease in receivables	479,121
Decrease in inventories	6,741
Increase in deferred charges and prepaid expenses	(2,464)
Increase in accounts payable	(55,509)
Increase in accrued liabilities	51,246
Increase in compensated absences	9,096
Decrease in deferred revenue	(41,465)
Decrease in deposits held for others	(3,071)

NET CASH USED IN OPERATING ACTIVITIES \$ (6,756,452)

See Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE
June 30, 2012

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Northeastern Technical College ("the College"), a member institution of the South Carolina Technical College System, provides a range of educational programs to meet the needs of the adult population of Chesterfield, Marlboro and Dillon counties. Included in this range of programs are technical and occupational associate degrees, diploma and certificate curricula that are consistent with the needs of employers in the College's service area. As an integral part of this mission, the College provides a program of continuing education designed to satisfy the occupational demands of employers through retraining and upgrading the skills of individual employees. The College also provides a variety of developmental education programs, support services and offerings to assist students in meeting their personal and professional educational objectives.

Summary of Significant Accounting Policies

Reporting Entity: The financial reporting entity, as defined by the Governmental Accounting Standards Board (GASB) consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of Northeastern Technical College, as the primary government. Northeastern Technical College has determined that it is not a component of another entity, and it has no component units. The College is part of the primary government of the State of South Carolina in its comprehensive annual financial report.

Financial Statements: The financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, and expenses, changes in net assets and cash flows that replace the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship expenses. All significant intra-institutional transactions have been eliminated.

The College has elected not to apply FASB Accounting Standards Codification (ASC) issued after November 30, 1989.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- Continued

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

Investments: Deposits and investments for the College are governed by the South Carolina Code of Laws, Section 11-9-660, "Investment of Funds". GASB Statement No. 40, *Deposits and Investment Risk Disclosures – an amendment to GASB Statement No. 3*, requires disclosures related to deposit risks, such as custodial credit risk, and investment risks, such as credit risk (including custodial credit risk and concentrations of credit risks) and interest rate risk. The college accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the fair value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students, gift pledges and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. The College uses the direct write-off method of accounting for receivables deemed uncollectible. Receivables known to be uncollectible are charged off as bad debts. Although this method is not in accordance with accounting principles generally accepted in the United States of America, historically its use has had no material effect on the financial statements since the amounts written off approximate the same charges against operations as would be produced if an allowance method based on actual experience were used.

Inventories: Inventories for internal use are valued at cost. Inventories for resale are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The College follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions, renovations, and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The College capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, improvements, and land improvements and 2 to 25 years for machinery, equipment, and vehicles. Effective July 1, 2011, the State has adopted a monthly depreciation convention for the straight-line method. Under this convention, depreciation is recognized in the month of purchase on a prorated based on the number of of days placed in service.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- Continued

Capital Assets - Continued: At the end of the life of the asset, a prorated amount of depreciation is recognized for the days within the month until the assets are removed from service.

Deferred Revenues: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned. At June 30, 2012, deferred revenue for tuition and fees totaled \$282,825 and other deferred revenue totaled \$234,443.

Compensated Absences: The College's vacation pay expense is accrued at year-end for financial statement purposes for employees. The liability and expense incurred are recorded at year-end as a component of current and long-term liabilities in the statement of net assets and as a component of benefit expenses in the statement of revenues, expenses, and changes in net assets.

Net Assets: The College's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The College's policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources and then to unrestricted resources.

Income Taxes: The College is exempt from income taxes under the Internal Revenue Code.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- Continued

Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by bookstore and vending services. Revenues of internal service and auxiliary enterprise activities and the related expenditures of college departments have been eliminated.

Classification of Revenues: The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the College's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the College; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the College would not otherwise undertake.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the differences between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, and other federal, state or non-governmental programs, are recorded as operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Classification of Expenses: The College has classified its expenses as either operating or non-operating expenses according to the following criteria:

Operating expenses: Operating expenses generally results from the purchasing of goods or services related to the College's principal ongoing operations. These expenses include (1) salaries and benefits paid to employees for providing educational services and other related services to students; (2) utilities to maintain the educational buildings; (3) supplies and services for goods and services provided to the College; (4) scholarship expense for student financial assistance; and (5) depreciation expense for capital items.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- Continued

Non-operating expenses: Non-operating expenses include activities that have the characteristics of non-exchange transactions. These expenses include interest expense and other. The College has no non-operating expenses.

Use of Estimates: The preparation of financial statements in accordance with generally accepted accounting principles requires management to make significant estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations: During the year ending June 30, 2012, the College received 48.5%, 17.9%, and 7.8% of its total revenues (excluding capital contributions) from Federal, State, and County operating grants and appropriations, respectively.

Subsequent events: Management of the College has evaluated events through September 28, 2012, which represents the date the financials were available to be issued.

NOTE B -- CASH, DEPOSITS AND INVESTMENTS

Deposits

State Law requires that a bank or savings and loan association receiving State funds must secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that a government will not be able to recover deposits if the depository financial institution fails or will not be able to recover collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails.

The College's policy concerning custodial credit risk states that collateral must be established to cover deposits in excess of those protected by FDIC. At the time the College's accounts are established the financial institution must send notification to the Federal Reserve and the main branch of the financial institution of the securities pledged as collateral for the College's accounts. The College will receive a copy of these notifications, which will serve as written proof of collateralization of deposits.

The deposits for the College at June 30, 2012 were \$2,598,999. Of these, \$250,000 was FDIC insured and \$2,348,999 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the College's name. The College did not recognize any losses due to default by counterparties to investment transactions and amounts recovered from prior period losses.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE B -- CASH, DEPOSITS AND INVESTMENTS - Continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not maintain deposits that are denominated in a currency other than the United States dollar, therefore, the College is not exposed to this risk.

The following schedule reconciles cash and investments as reported on the Statement of Net Assets to foot-note disclosure provided for deposits and investments.

Statement of Net Assets:

Cash and cash equivalents	\$	2,032,119
Restricted cash and cash equivalents		466,473

Total Statement of Net Assets:	\$	2,498,592
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Disclosure, Deposits and Investments Plus Reconciling Items:

Carrying value of deposits:	\$	2,497,792
Other		800

Cash on Hand	\$	2,498,592
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Total Disclosure, Deposits and Investments Plus Reconciling Items	\$	2,498,592
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NOTE C -- ACCOUNTS RECEIVABLE

Accounts Receivable at June 30, 2012 were as follows:

Local appropriations	\$	28,420
State appropriations		43,278
Capital grants		85,000
Student accounts		855,914
Federal grants and contracts		109,936
State grants and contracts		50,813

TOTAL ACCOUNTS RECEIVABLE	\$	1,173,361
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Total write-offs as of June 30, 2012 were approximately \$10,000.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE D -- CAPITAL ASSETS

Capital Assets at June 30, 2012 were as follows:

	Beginning Balance <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2012</u>
Capital Assets Not Being Depreciated				
Land and improvements	\$ 662,379			\$ 662,379
Construction in progress	<u>1,013,858</u>	<u>\$ 232,202</u>	<u>\$ (1,246,060)</u>	<u>0</u>
Total Capital Assets Not Being Depreciated	1,676,237	232,202	(1,246,060)	662,379
Other Capital Assets				
Buildings and improvements	10,817,109	1,246,060		12,063,169
Machinery, equipment, and other	2,138,862			2,138,862
Vehicles	246,144			246,144
Depreciable Land improvements	<u>3,807,977</u>			<u>3,807,977</u>
Total Other Capital Assets At Historical Cost	17,010,092	1,246,060	0	18,256,152
Less Accumulated Depreciation For				
Buildings and improvements	(4,755,435)	(333,051)		(5,088,486)
Machinery, equipment, and other	(2,003,108)	(65,612)		(2,068,720)
Vehicles	(233,694)	(5,917)		(239,611)
Depreciable land improvements	<u>(1,883,958)</u>	<u>(162,472)</u>		<u>(2,046,430)</u>
Total Accumulated Depreciation	(8,876,195)	(567,052)	0	(9,443,247)
CAPITAL ASSETS, NET	<u>\$ 9,810,134</u>	<u>\$ 911,210</u>	<u>\$ (1,246,060)</u>	<u>\$ 9,475,285</u>

NOTE E -- PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to Financial Services, South Carolina Retirement Systems, PO Box 11960, Columbia, South Carolina 29211. Furthermore, the Retirement System and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE E -- PENSION PLANS - Continued

South Carolina Retirement System

The majority of employees of the College are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Effective July 1, 2011, the employer contribution rate was 13.685% which included a 4.3% surcharge to fund retiree health and dental insurance coverage. The College's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2012, 2011, and 2010, were \$362,296, \$356,072, and \$379,148, respectively, and equaled the required contributions of 9.24% (excluding the surcharge) for fiscal year 2010, 9.24% (excluding the surcharge) for fiscal year 2011, and 9.385% (excluding the surcharge) for fiscal year 2012. Also, the College paid employer group-life insurance contributions of \$5,791 in the current fiscal year at the rate of .15% of compensation.

Optional Retirement Program

The State Optional Retirement Program (State ORP) was first established as the Optional Retirement Program for Higher Education in 1987. In its current form, the State ORP is an alternative to the defined benefit SCRS plan offered to certain state, public school and higher education employees of the State. The State ORP, which is administered by the South Carolina Retirement Systems, is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by investment providers. The State assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts issued by them.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.385% plus the retiree surcharge of 4.3% from the employer in fiscal year 2012.

Employees are eligible for group-life insurance benefits while participating in the State ORP. However, employees who participate in the State ORP are not eligible for postretirement group-life insurance benefits. For the fiscal year, total contribution requirements to the ORP were \$7,765 (excluding the surcharge) from the College as employer and \$11,022 from its employees as plan members. In addition, the College paid to the SCRS employer group-life insurance contributions of \$266 in the current fiscal year at the rate of .15% of compensation.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE E -- PENSION PLANS - Continued

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the College have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina.

Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible to receive group life insurance benefits or disability retirement benefits. Employees who choose to participate in the TERI Program will be required to make SCRS contributions. Due to the South Carolina Supreme Court decision in Layman et al v. South Carolina Retirement System and the State of South Carolina, employees who chose to participate in the TERI Program, prior to July 1, 2005 will not be required to make SCRS contributions.

NOTE F -- POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health, dental and life insurance benefits to certain active and retired State employees and their covered dependents. All permanent full-time and certain permanent part-time employees of the College are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements. Generally, those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the College for its active employees and to the State Budget and Control Board for all participating State retirees except portions funded through the pension surcharge and provided from other applicable fund sources of the College for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE F -- POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS - Continued

The College recorded benefit expenses for these insurance benefits for active employees in the amount of \$414,578 for the year ended June 30, 2012. As discussed in Note E, the College paid \$173,853 applicable to the 4.3% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the College's retirees is not available. By State law, the College has no liability for retirement benefits. Accordingly, the cost of providing these benefits is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE G -- CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

The College participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

Unrestricted Net Assets

Included in the unrestricted net assets amount, at June 30, 2012 is a 60 day operating reserve of \$1,263,063.

NOTE H -- NONCURRENT LIABILITIES

Long-term liability activity for the year ended June 30, 2012 was as follows:

	July 1, 2011	Additions	Reductions	June 30, 2012	Due Within One Year	Long-Term Portion
Note payable (Note I)	\$ 18,291		(4,578)	\$ 13,713	\$ 4,568	\$ 9,145
Accrued compensated absences	<u>400,255</u>	<u>9,096</u>		<u>409,351</u>	<u>64,295</u>	<u>345,056</u>
TOTAL NONCURRENT LIABILITIES	<u>\$ 418,546</u>	<u>\$ 9,096</u>	<u>\$ (4,578)</u>	<u>\$ 423,064</u>	<u>\$ 68,863</u>	<u>\$ 354,201</u>

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE I -- NOTE PAYABLE

The College has a note payable from the State Energy Program Award for energy efficiency and renewable energy projects. The State Energy Program Award of \$73,250 was a combination of 75% grant and 25% no-interest loan.

The scheduled maturities of the note payable are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2013	4,568
2014	4,572
2015	<u>4,573</u>
 TOTAL	 <u>\$ 13,713</u>

NOTE J -- RELATED ORGANIZATIONS, RELATED PARTY TRANSACTIONS, AND TRANSACTIONS WITH DISCRETELY PRESENTED COMPONENT UNITS

The Northeastern Technical College Foundation ("Foundation") is a separately chartered legal entity whose activities are related to those of the College, in that, it exists primarily to provide financial assistance and other support to the College and its educational program. The Foundation is not considered to be a component unit of the College, and the financial statements of the Foundation have not been audited due to the immaterial amount of transactions. The Foundation is a separately chartered corporation organized exclusively to receive and manage private funds for the exclusive benefit and support of Northeastern Technical College. The Foundation's activities are governed by its Board of Directors.

Management reviewed its relationship with the Foundation under the existing guidance of GASB Statement No. 14, as amended by GASB 39. The College excluded this organization from the reporting entity because it is not financially accountable for it, and the Foundation's assets are not significant to the College's overall assets.

Following is a more detailed discussion of The Foundation and a summary of significant transactions (if any) between the Foundation and the College for the year ended June 30, 2012.

The Foundation's assets as of June 30, 2012 were \$459,398.

NOTE K -- RISK MANAGEMENT

The College is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE K – RISK MANAGEMENT - Continued

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The College and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Natural disasters
- Medical malpractice claims against the Infirmary

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially. The College obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

NOTE L -- STATE APPROPRIATIONS

State funds for the South Carolina Technical College System are appropriated to the State Board for Technical and Comprehensive Education (the Board), and the Board allocates funds budgeted for the technical colleges in a uniform and equitable manner. Appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the Board receives authorization from the General Assembly to carry the funds over to the next year.

The following is a detail schedule of the State appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2012:

NON-CAPITAL APPROPRIATIONS

Appropriations per State Board Allocation	<u>\$ 1,661,958</u>
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TOTAL NON-CAPITAL APPROPRIATIONS AS CURRENT YEAR REVENUE	<u>\$ 1,661,958</u>
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NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE M -- STATEMENT OF ACTIVITIES

The following is a comparative analysis of the College's statement of activities for the years ending:

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>
Charges for services	\$ 2,021,858	\$ 2,615,503	\$ (593,645)
Non-Operating grants and contributions	5,585,214	6,497,493	(912,279)
Capital grants and contributions	545,550	658,746	(113,196)
Less: expenses	<u>(9,789,057)</u>	<u>(10,270,521)</u>	<u>481,464</u>
Net Program Expense	(1,636,435)	(498,779)	(1,137,656)
Transfers:			
State appropriations	<u>1,661,958</u>	<u>1,570,626</u>	<u>91,332</u>
Total Transfers	<u>1,661,958</u>	<u>1,570,626</u>	<u>91,332</u>
Change in net assets	25,523	1,071,847	(1,046,324)
Net assets – beginning	<u>12,180,525</u>	<u>11,108,678</u>	<u>1,071,847</u>
Net assets – ending	<u>\$ 12,206,048</u>	<u>\$ 12,180,525</u>	<u>\$ 25,523</u>

NOTE N -- OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2012 are summarized as follows:

	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships</u>	<u>Utilities</u>	<u>Supplies and Other Services</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 1,875,130	\$ 526,351			\$ 626,133		\$ 3,027,614
Academic Support	493,534	146,456			221,081		861,071
Student Services	859,485	271,304			316,338		1,447,127
Operation and Maintenance	285,315	124,213		\$ 271,684	307,203		988,415
Institutional Support	827,926	268,695			49,363		1,145,984
Scholarships			\$ 1,285,486				1,285,486
Auxiliary	35,359	12,157			418,792		466,308
Depreciation						\$ 567,052	567,052
Total Operating Expenses	<u>\$ 4,376,749</u>	<u>\$ 1,349,176</u>	<u>\$ 1,285,486</u>	<u>\$ 271,684</u>	<u>\$ 1,938,910</u>	<u>\$ 567,052</u>	<u>\$ 9,789,057</u>

NOTE O -- LEASES

The College rents certain office equipment. The fee is based on usage and the current year expenses for contingent rentals to external parties are \$38,863.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE P -- AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS

The College incurred expenditures of \$307,977 during fiscal year 2012 under American Recovery and Reinvestment Act (ARRA) funding. These funds were awarded to the College via pass-through funding from the U.S. Department of Education (State Fiscal Stabilization Funds), U.S. Department of Labor (Power Up - Pee Dee), U.S. Department of Commerce (Broadband), U.S. Department of Health and Human Services (DDS Child Care).

ARRA – State Fiscal Stabilization Funds	\$	57,453
ARRA – Broadband		27,483
ARRA – DSS Child Care		2,248
ARRA – Power Up – Pee Dee		<u>220,793</u>
TOTAL	\$	<u>307,977</u>

GOVERNMENTAL AUDITING REPORTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
NORTHEASTERN TECHNICAL COLLEGE
For the Year Ended June 30, 2012

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster:			
PELL	84.063	P063P112971	\$ 4,089,031
College Work Study	84.033	P033A113768	59,092
SEOG	84.007	P007A113768	37,141
Academic Competitiveness Grant	84.375	P375A102971	8,412
			<u>4,193,676</u>
Student Support Services Program	84.042A	P042A100354	224,628
Predominantly Black Institutions Program	84.031P	P031P100016	74,672
	84.031P	P031P110032	99,456
			<u>174,128</u>
Pass-Through the State Board for Technical and Comprehensive Education			
ARRA - State Fiscal Stabilization Funds	84.394	None	57,453
Pass-Through the State Department of Education Perkins	84.048	12VA404	<u>70,923</u>
	Total U.S. Department of Education		4,720,808
U.S. Department of Health and Human Services			
Pass-Through Greenville Technical College TEACH-ECD	93.575	12TE407	4,549
ARRA - DSS Child Care	93.713	G10076T	<u>2,248</u>
	Total U.S. Department of Health and Human Services		6,797
U.S. Department of Labor			
Pass-Through Florence-Darlington Technical College Power Up - Pee Dee	17.275	GJ200731060A45	220,793
TAACCCT	17.282	TC-22521-11-60-A-45	<u>90,864</u>
	Total U.S. Department of Labor		311,657
U.S. Department of Commerce			
Direct Programs:			
Economic Development Act	11.300	04-01-06133	358,018
Pass-Through the State Board for Technical and Comprehensive Education ARRA - Broadband	11.557	45-42-B10012	<u>27,483</u>
	Total U.S. Department of Commerce		<u>385,501</u>
	TOTAL FEDERAL ASSISTANCE		\$ 5,424,763

NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES
NORTHEASTERN TECHNICAL COLLEGE
For the Year Ended June 30, 2012

NOTE A -- BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note A of the College's financial statements.

NOTE B -- ARRA STATE ENERGY PROGRAM

The grant issued 25% of the total award amount as a loan at 0% interest which will be paid back from energy savings recognized from the grant award. In accordance with terms of the grant, \$13,713 was payable to the State Department of Energy at June 30, 2012.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The President and Members of the Area Commission
Northeastern Technical College
Cheraw, South Carolina

We have audited the financial statements of the business-type activities of Northeastern Technical College ("*the College*") as of and for the year ended June 30, 2012 which comprise the College's basic financial statements and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The President and Members of the Area Commission
Northeastern Technical College
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 12-01.

This report is intended solely for the information and use of the Area Commission, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
September 28, 2012

The Halls Group, P.A.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The President and Members of the Area Commission
Northeastern Technical College
Cheraw, South Carolina

Compliance

We have audited Northeastern Technical College's ("the College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2012. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questions costs as items 12-01. A significant deficiency in internal control over compliance is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to be brought to the attention of those charged with governance.

This report is intended solely for the information and use of the Area Commission, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
September 28, 2012

The Hollar Group, P.A.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
NORTHEASTERN TECHNICAL COLLEGE
Year Ended June 30, 2012

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Northeastern Technical College.
2. No significant deficiencies relating to the audit of the financial statements are reported in the "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards".
3. No instances of noncompliance material to the financial statements of Northeastern Technical College disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs is reported on the "Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133."
5. The auditors' report on compliance expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs include:

Cluster of Student Financial Aid	84.063, 84.033, 84.007, 84.375
Predominantly Black Institution	84.031P
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Northeastern Technical College did qualify as a low risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
NORTHEASTERN TECHNICAL COLLEGE
Year Ended June 30, 2012

FINDINGS -- FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding No. 12-1

U.S. Department of Education

Student Financial Aid Cluster, CFDA No. 84.063

Type of Finding: Significant deficiency

Criteria: Internal controls should be in place to ensure that instructors are submitting withdrawal forms in a timely manner, so that the return of Title IV funds can be calculated timely. The 2011-2012 Student Financial Aid Handbook states, "except in unusual instances, the date of the institution's determination that the student withdrew should be no later than 14 days...after the student's last date of attendance as determined by the institution from its attendance records."

Condition: Instructors are not providing timely notification of student withdrawals to the Business and Financial Aid offices.

Context: We obtained a listing of students in which the College calculated the return of Title IV funds and selected 10 students, approximately 10%, to determine the timeliness and accuracy of the calculation. We noted one exception in which the withdrawal form was not submitted to the Business Office timely and the student withdrew before 60% of the semester was over. We expanded our sample to include 5 more students and noted an identical exception in which the withdrawal form was not submitted to the Business Office timely.

Effect: The College could be disbursing financial aid in excess of the student's earned amount if the student dropped prior to completion of 60% of the semester. Due to the College's policy on drawing down financial aid funds in an amount that allows for adjustments, this has no effect on the amounts to be returned to the Department of Education, but it does require further work to be performed by the Financial Aid office in notifying the student of the excess that should be returned and obtaining the funds from the student.

Cause: The College's attendance policy states that a student must attend a minimum of 80% of the meetings of each class in order to earn credit for the class. Instructors should submit withdrawal forms to the Business office no more than 14 days after the institution has determined that a student has withdrawn.

Recommendation: Management should implement a control to ensure that instructors are submitting withdrawal forms timely, so that the calculation of the return of Title IV funds can be calculated in a timely manner.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
NORTHEASTERN TECHNICAL COLLEGE
Year Ended June 30, 2012

FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT - Continued

Views of Responsible Officials and Planned Corrective Action:

Northeastern Technical College has an existing attendance policy. College administration has determined this finding to be an isolated occurrence. At the beginning of each term, administration will remind faculty of the attendance policy and the procedure for handling attendance rosters. Recently, an existing faculty member was designated as the "faculty mentor". This position will play an important role in guiding new and existing faculty members in following policies such as this one.

SCHEDULE OF PRIOR AUDIT FINDINGS
NORTHEASTERN TECHNICAL COLLEGE
Year Ended June 30, 2012

None